

Message Text

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ORIGIN SS-10

INFO OCT-01 ISO-00 CCO-00 SSO-00 /011 R

DRAFTED BY:S/S-O:GTWOHIE

APPROVED BY:S/S-O:GTWOHIE

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O 090521Z NOV 73 ZFF4

FM SECSTATE WASHDC

TO AMEMBASSY TEHRAN IMMEDIATE

C O N F I D E N T I A L STATE 221359

EXDIS TOSEC 279

FOLLOWING OECD PARIS 28915 SENT ACTION STATE INFO BONN
LONDON

PARIS THE HAGUE ROME BRUSSELS TOKYO JIDDA TEHRAN KUWAIT
EC BRUSSELS NOV 8 RPT TO YOU QUOTE

C O N F I D E N T I A L OECD PARIS 28915

DEPARTMENT

PLEASE REPEAT IMMEDIATE TO THE SECRETARY
FOR THE SECRETARY FROM UNDER SECRETARY CASEY

ECOTO 5

E.O. 11652: N/A

TAGS: ENRG, OVIP, GR

SUBJECT: BONN TALKS ON OIL SITUATION

1. SUMMARY: SENIOR OFFICIALS IN GERMAN FOREIGN OFFICE
AND MINISTRY ECONOMICS TOLD ME THAT, WHILE GERMANY'S OIL
SUPPLY SITUATION BECOMING SERIOUS AND PLANS BING COMPLETED
FOR HANDLING 10-15 PER CENT REDUCED CONSUMPTION, THEY DID
NOT WANT "LOUD" PUBLIC SHARING GERMANY'S BURDEN BY ITS
EUROPEAN NEIGHBORS BUT PREFERRED A "VERY SILENT" SYSTEM
OF COOPERATION RELYING ON COMPANIES TO DO NECESSARY
SHIFTING OF SUPPLIES. HOWEVER, IF LIBYA MOVED TO EMBARGO
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GERMANY, THIS APPROACH WOULD HAVE TO CHANGE SINCE SHORT-
FALL WOULD THEN REACH 40 PERCENTOF CONSUMPTION. POSSIBLE
WEAKNESS ARAB OIL WEAPON APPEARS TO SHOWING UP IN DIFFI-
CULTINES APPLYING RIGHT AMOUNT PRESSURE AT RIGHT TIME WITH

SUFFICIENT COORDINATION. RELUCTANT AS THEY ARE TO REACT, EUROPEAN NATIONS CAN BE PUSHED TOO FAR TOO FAST. GERMANS WANT GET TOGETHER WITH OUR ENERGY R&D EXPERTS TO SEE WHAT US AND GERMANY CAN USEFULLY DO TO DEVELOP MORE QUICKLY ALTERNATIVE SOURCES.

2. ON NOVEMBER 6 I TALKED IN BONN WITH AMBASSADOR HERMES, ASSISTANT SECRETARY FOR ECONOMICS IN FOREIGN OFFICE, AND LANTZKE, ASSISTANT SECRETARY FOR ENERGY IN MIN ECON, ABOUT CURRENT AND LONGER-RUN ENERGY PROBLEMS.

3. CURRENT SUPPLY SITUATION: HERMES ASKED FOR OUR ASSESSMENT ARAB OIL PRODUCTION CUTBACKS AND EMBARGOES. I REPLIED THAT WE HOPED THE PERIOD OF THESE SUPPLY REDUCTIONS WOULD BE CURTAILED BUT HAD TO ASSUME THEY WOULD BE EXTENDED AND TO PLAN FOR THIS WORSE CASE. WE HOPEFUL, I SAID, THAT YOU WILL HAVE SUCCESS IN PERSUADING ARABS THEY NEED US FOR TERRITORIAL SOLUTIONS THEY WANT AND THUS THEIR CONTINUING AND INCREASING OIL PRESSURE COUNTERPRODUCTIVE TO EXTENT IT BECOMES INTOLERABLE FOR US CARRY THROUGH WITH EXTREMELY DELICATE AND PASTAKING PEACE-MAKING ROLE. LANTZKE EXPRESSED SURPRISE THAT SAUDIS HAD MOVED OUT IN LEAD AS HEAVIEST PRESSURER AND ASKED IF THEY WOULD MAKE MOVES THAT WOULD SERIOUSLY DAMAGE CONSUMER COUNTRIES. I RESPONDED THAT SAUDIS HAD ENTERED ONLY RELUCTANTLY INTO USE OIL AS INSTRUMENT OF POLITICAL PRESSURE BUT THAT IN PRESENT EMOTIONALLY CHARGED CIRCUMSTANCES HIGHLY SPECULATIVE TO TRY READ ANOTHER MAN'S (FAISL'S) MIND. GERMANS SAID THEY SAW SUPPLY SITUATION IN SAME WAY AND AGREED THERE ARE PRECIOUS FEW POINTS FOR EFFECTIVE COUNTER PRESSURE BY CONSUMERS; LANTZKE NOTING THAT TIME FRAMES FOR ARABS AND CONSUMERS DIFFERED IN TERMS DOING WITHOUT INCOME AND OIL RESPECTIVELY.

4. HERMES SAID EUROPE NOW MORE EXPOSED THAN US AND ASKED WHAT OUR THOUGHTS WERE ON OIL SHARING. I REPLIED THAT AS OF NOW US WAS FACING LARGER OIL CONSUMPTION LOSSES THAN EUROPE OR JAPAN. AS FOR OIL SHARING, I RESPONDED THAT IT CONFIDENTIAL

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HAD BECOME SOMEWHAT ACADEMIC SINCE NO OTHER OECD MEMBER WANTED TO RUN RISK SHARING WITH ARAB EMBARGO TARGETS, SUCH AS THE US AND NETHERLANDS, AND THERE SEEMED TO BE AN INCLINATION TO BACK AWAY FROM AUTOMATIC TRIGGERING FORMULAS, THE CONSEQUENCES OF WHICH WERE, AT THE LEAST, UNCERTAIN. TO THE EXTENT SHARING TAKES PLACE IT WILL PROBABLY HAVE TO BE ON AD HOC BASIS. MOST IMPORTANT IT SEEMED TO ME WAS SHOW OF STRONG UNITED FRONT BY CONSUMERS IN ORDER INDICATE TO ARABS THEY CANNOT SHOP THEM UP. BOTH GERMANS AND BRITISH ACCEPT THIS ONLY AS OBJECTIVE SUBORDINATE TO THAT OF KEEPING OIL FLOWING AS MUCH AS POSSIBLE, HAVING OIL COMPANIES MOVE OIL AROUND IN INCONSPICUOUS MANNER TO TAKE CARE UNFAVORED AND EMBARGOED EUROPEANS. LANTZKE STATED

GERMAN GOVERNMENT DID NOT WANT "LOUD" PUBLIC SHARING ON COMMON BASIS BUT A "VERY SILENT" SYSTEM OF COOPERATION THAT PRODUCED AS MUCH SUPPLY AS POSSIBLE.

5. LANTZKE PRESENTED FOLLOWING INFORMATION ON GERMAN GOVERNMENT'S PREPARATIONS FOR MEETING 11 - 15 PERCENT CUT IN CRUDE AND PRODUCT FLOWS ANTICIPATED AS OF NOVEMBER, EVN WITH "EUIET" COMPANY HELP. ALREADY OIL COMPANIES IN GERMANY ARE OPERATING UNDER GOVERNMENT GUIDELINES. WORK IS NEARING COMPLETION ON LEGISLATIVE AND REGULATORY MEASURES FOR CONSERVING ENERGY, STARTING FROM VOLUNTARY BASIS AND GOING RATHER QUICKLY TO STEP BY STEP MANDATORY SYSTEM, WITH RATIONING COMING LAST AS GOVERNMENT DOES NOT WANT TO GO THIS ROUTE UNLESS FORCED TO. SUH A PROGRAM IS REQUIRED SINCE WITHOUT IT, STOCKS WOULD RUN OUT BY END MARCH OR APRIL. IT POSSIBLE TO CUT BACK GERMAN CONSUMPTION 10 - 12 PERCENT BUT AFTER THAT SHORTAGES BEGIN HIT INDUSTRY, FIRST CHEMICAL IN TERMS NAPTHA AND THEN WINTER HEATING REQUIREMENTS AND INDUSTRY IN TERMS HEAVY AND LIGHT FUEL OILS AND NAPTHA.

6. LANTZKE IN RESPONSE QUESTION RE THREATEND LIBYAN EMBARGO SAID HE DIDN'T EXPECT IT TO HAPPEN. IF IT DID, IT WOULD BE INTOLERABLE, WITH CUT IN GERMAN OIL CONSUMPTION GOING QUICKLY TO 40 PERCENT. THIS WOULD THEN, HE SAID, CALL FOR SOME REACTION, BUT HE DID NOT ELABORATE FURTHER. AS OF NOW GERMANY RECEIVING EXTRA AMOUNTS LIBYAN CRUDE VIA TRIESTE.

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7. COMMENT: OBVIOUSLY GERMANS AND OTHER EUROPEANS NOT NOW READY REDUCE THEIR SUPPLIES OIL BY TAKING STEPS THAT COULD PROVE PROVOCATIVE TO ARABS. THEY WORRIED, HOWEVER, THAT CONTINUED AND EVER HEAVIER ARAB PRESSURE WILL MAKE THEIR PREFERRED QUIET RESPONSE UNWORKABLE. POINT COULD COME WHEN SUPPLY SITUATION BECOMES SO INTOLERABLE AS PROVOKE RELUCTANT EUROPEANS INTO UNIFIED COUNTERMEASURES AGAINST ARABS. SITUATION WILL HAVE GET CONSIDERABLY WORSE BEFORE THIS HOWEVER. BUT POINT IS THAT, WHILE ARABS HAVE UNTIL RECENTLY SHOWN UP WELL IN THE SOPHISTICATION AND EFFECTIVENESS THEIR OIL STRATEGY, THEIR TACTICAL USE OF OIL FOR PRESSURE AND LEVERAGE IS BEGINNING SHOW SIGNS WEAKNESS IN LACK OF SENSE OF TIMING AND COORDINATION AND TOO MUCH HEAVY HANDEDNESS.

8. LONGER-RUN ENERGY PROBLEMS. IN RESPONSE TO HERMES QUESTION OF WHETHER WESTERN COUNTRIES SHOULD ASSUME STAGNATION OR FURTHER DECREASES ARAB OIL PRODUCTION AFTE CURRENT EMBARGOES LIFTED, I SAID WE ANTICIPATED TENDENCY TOWARD FLATTENING OUT OF MIDDLE EAST OIL SUPPLY CURVES FOR ECONOMIC AND CONSERVATION REASONS. THEREFORE, MAJOR DEVELOPED CONSUMERS WILL HAVE TO BE MORE ENERGETIC IN CONVINCING THESE PRODUCERS THAT INCREASED OIL OUTPUT IS WAY FOR THEM ACHIEVE

STAKE THEY WILL NEED IN WORLD FUEL ECONOMY AS ROLE OF FOSSIL FUEL DIMINISHES. LANTZKE STATED THAT RATES OF PRODUCTION NOW PROJECTED FOR SOME PERSIAN GULF PRODUCERS WILL NOT BE REACHED --E.G., SAUDI ARABIA.

9. LANTZKE ASKED IF US THOUGHT CONSUMER GOVERNMENTS WOULD HAVE PLAY LARGER ROLE IN OIL COMPANY-PRODUCER NEGOTIATIONS. I SAID YES, BUT I WAS DOUBTFUL HOW MUCH GOVERNMENTS COULD EFFECTIVELY CONTRIBUTE IN NEGOTIATIONS THEMSELVES. PUBLIC OPINION CAN BE EXPECTED PUST FOR GREATER GIVERNMENT ROLE, BUT GUIDELINES TO COMPANIES NOT LIKELY BE VERY USEFUL OR HELPFUL, WHILE ORGANIZATION OF CONSUMER GOVERNMENTS TO CONTROL MARKETS NOT LIKELY TO GET SUPPORT OR WOK WELL IN PRACTICE IF IT DID. GOVERNMENTS CAN AND SHOULD AFFECT THE CLIMATE AND SETTING IN WHICH NEGOTIATIONS TAKE PLACE. IT IS NECESSARY KEEP OIL INDUSTRY FUNCTIONING. FUNDAMENTALS OF GOVERNMENT ACTION ARE IN SUPPLY AND DEMAND AREA. CONSUMPTION MUST BE REDUCED AND MADE MORE EFFICIENT. DOMESTIC PRODUCTION AND EXPLORATION MUST BE

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PUSHED, ESPECIALLY IN US. SIGNS OF CLEAR SENSE PURPOSE AND DIRECTION IN THESE REGARDS BOUND HAVE BENEFICIAL EFFECT ON PRODUCERS AND OTHER CONSUMERS. AS HARD AS THEY MAY BE ON US IN SHORT-RUN, CURRENT REDUCED SUPPLIES AND SBSTANTIALLY INCREASING CRUDE OIL PRICES SHOULD BE HELPFUL IN ACCELERATING EFFORTS NEEDED REDUCE CONSUMPTION AND INCREASE PRODUCTION. LANTZKE HOPED EFFECTS CURRENT SITUATION WOULD SPEED UP RESOLUTION NUCLEAR POWER PLANT SITING AND ENVIRONMENTAL PROBLEMS SINCE GERMANY PROJECTING 60 PERCENT ITS ELECTRICITY FROM THIS FORM ENERGY IN 1980.

10. R&D: I NOTED IMPORTANCE OF JOINT R&D AND EXPLORATION AND EXPLOITATION NEW RESOURCES, ALONG WITH SHARING IN EMERGENCIES, AS MEANS OF SHOWING COMMON FRONT OF CONSUMERS. WE COULD, I SAID, SEND ENERGY RESARCH TECHNICIANS TO GERMANY TO TALK WITH THEIR COUNTERPARTS AND SEE WHAT WE MIGHT BE ABLE TO DO TOGETHER. LANTZEKE AND HERMES FAVORED THIS, AND LATTER SAID HE WOULD HELP ORGANIZE SUCH EXCHANGES. LANTZKE SAID THAT GERMANY DOING SIFNIFICANT R&D ON POWER STATIONS FIRED BY GAS MADE FROM COAL AS ANSWER TO BEST ENVIRONMENTAL WAY USE COAL FOR ENERGY.

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 11 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, PETROLEUM INDUSTRY, EXPLORATION, COAL, STOCKPILES, EMBARGOES, GOVERNMENT REACTIONS, EXPLOITATION (NATURAL RESOURCES)
Control Number: n/a
Copy: SINGLE
Draft Date: 09 NOV 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: elyme
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE221359
Document Source: ADS
Document Unique ID: 00
Drafter:
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: P750026-1156
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731167/abqcejqw.tel
Line Count: 210
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: n/a
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: elyme
Review Comment: n/a
Review Content Flags:
Review Date: 14 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <14-Nov-2001 by willialc>; APPROVED <13-Dec-2001 by elyme>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: BONN TALKS ON OIL SITUATION
TAGS: ENRG, GE
To: TEHRAN
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005